



# STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

# DRAFT

Date Introduced:	02/18/11	Bill No:	<a href="#">Assembly Bill 1143</a>
Program:	Administration	Author:	Dickinson
Sponsor:	Support as Sponsor	Code Sections:	GC 14669.16
Related Bills:		Effective Date:	01/01/12

## BILL SUMMARY

This bill would authorize the Department of General Services (DGS), with the consent of the Board of Equalization (BOE), to enter into a lease, lease-purchase agreement, or lease with an option to purchase a build-to-suit facility in the Sacramento area for purposes of consolidating the BOE Headquarters operations into one central location.

## ANALYSIS

### CURRENT LAW

**BOE Responsibilities.** Under existing law, the BOE administers, among other things, the following tax and fee programs: sales and use tax, Bradley-Burns uniform local sales and use tax, transactions and use tax, alcoholic beverage tax, cigarette and tobacco products tax, motor vehicle fuel tax, diesel fuel tax, interstate user tax, emergency telephone users surcharge, energy resources surcharge, insurance tax (in part), integrated waste management fee, natural gas surcharge, childhood lead poisoning prevention fee, oil spill response and prevention fee, underground storage tank maintenance fee, use fuel tax, hazardous substances tax, California tire fee, occupational lead poisoning prevention fee, marine invasive species fee, electronic waste recycling fee, timber yield tax and private railroad car tax. The BOE also assesses the property of public utilities and common carriers, and provides certain administrative and oversight functions with respect to the local property tax.

In 2008-09, BOE-administered taxes and fees produced \$48.4 billion. In addition, BOE administered programs provided approximately 35 percent of the annual revenue for state government and \$8.5 billion in essential funding for counties, cities, and special districts.

The BOE is comprised of four elected members, one from each equalization district, and the State Controller. The Board itself is responsible for setting the values for state-assessed properties on the BOE roll and for hearing appeals of those values. It also hears appeals relating to all of the taxes and fees it administers, as well as the taxes administered by the FTB.

**DGS Responsibilities.** Existing law authorizes the DGS to perform various functions with regard to state property and provides for the sale, lease, or transfer of state property, if authorized or contemplated by law.

Existing Article 2 (commencing with Section 14660) of Chapter 2 of Part 5.5 of Division 3 of Title 2 of the Government Code authorizes the Department of General Services (DGS) to acquire, construct, lease, or transfer state property, as specified, when specifically authorized by the Legislature.

*This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the BOE's formal position.*

Government Code Section 14660 authorizes DGS to acquire title to real property in the name of the State whenever the acquisition of real property is authorized or contemplated by law, if no other state agency is specifically authorized and directed to acquire it.

Government Code Section 14669 authorizes DGS to hire, lease, lease-purchase, or lease with an option to purchase any real or personal property for the use of any state agency if DGS deems the hiring or leasing is in the State's best interest and is specifically authorized to do so by the Legislature.

Government Code Section 14682 requires state agencies located in existing state-owned or state-leased facilities that vacate their premises to continue paying rent for the facilities unless and until a new tenant can be assigned or until the DGS can negotiate a mutual termination of the lease.

### **PROPOSED LAW**

This bill would add Section 14669.16 to the Government Code to authorize DGS, with the consent of the BOE, to enter into a lease, lease-purchase agreement, or a lease with an option to purchase for a build-to-suit facility, for the relocation and consolidation of the BOE headquarters annexes in the Sacramento region. DGS may enter into one or more agreements or leases for the purposes of providing usable office and related space in the Sacramento region in order to consolidate various departments of the BOE into a single location.

This bill would require DGS to develop the terms and conditions of any agreements or leases authorized by this section, and to provide them to Department of Finance (DOF) for review and approval prior to soliciting bids. In addition, DGS must obtain approval from the DOF prior to executing any agreement or lease.

The bill would require DGS to notify the chairpersons of the fiscal committees of the Legislature and the Joint Legislative Budget Committee of the terms and conditions of the agreement or lease at least 30 days prior to executing the agreement for a lease, lease-purchase, or lease with an option to purchase for a build-to-suit of real property authorized by this section. DGS may proceed with the agreement or lease 30 days following the date that DGS gave notice to the chairpersons.

The bill provides that DGS shall be reimbursed for any reasonable costs incurred for the transactions pursuant to this section.

This bill would become effective January 1, 2012.

### **BACKGROUND**

The BOE Headquarters building located at 450 N Street is owned by the State of California and has property management services provided by DGS. The BOE is the primary tenant and pays monthly rent as identified annually by the DGS to occupy the building, as well as any additional costs to maintain, upgrade, operate, or fund other special repairs to the building.

Construction of the BOE Headquarters building began in 1991 and was completed in January 1993. The Headquarters building is a twenty-four story office facility, which includes a four-level parking garage, ground floor cafeteria and a children's daycare center. The BOE moved its headquarters operations into the building in February 1993.

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The BOE has been working with DGS since 2008 to right size the headquarters building by identifying adequate office space for additional employees. The Space Optimization Study of 1997 prepared by Dreyfuss and Blackford and two additional reviews prepared by DGS (2006 and 2008), have indicated that the building is designed to house 2,200 employees. The BOE requires space for approximately 2,900 employees for its headquarters operations.

The staffing increases are due largely to growth to address legislative mandates for revenue collection and enforcement efforts. The BOE has been forced to move approximately one-fourth of the Headquarters operations to four different annex locations in the greater Sacramento area.

In 2008, BOE permanently relocated 32 employees and over one million taxpayer records to an annex location in West Sacramento. In spring 2010, the BOE permanently moved 354 employees to two annex locations, one in West Sacramento and one in downtown Sacramento. In December 2010, the BOE moved an additional 297 employees to a fourth annex location in the North Natomas area of Sacramento.

The addition of the annex facilities has provided space to house approximately 700 employees that will not fit in the Headquarters building. However, even these facilities are at maximum capacity, which leaves no room for future growth. Assuming modest growth of 56 positions per year over the next five years, there will be inadequate space for these employees. Consequently, the implementation of any additional tax and fee programs enacted by the Legislature would likely be delayed because it generally takes about 12 months to locate facilities to house the new staff. BOE needs a new facility that can house all Headquarters staff, with reasonable room for growth, in light of its mission critical, revenue generating work.

## COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the BOE in order to begin the process of moving the 2,900 employees out of the 450 N Street building and annex locations, which are at capacity, to a location that better meets its business needs. In addition, this bill would accomplish the following:
  - Support BOE's core mission of revenue generating processing,
  - Protect the health and safety of employees,
  - Eliminate inefficiencies of managing operations across, and supporting, multiple annex locations, and
  - Accommodate future short-term as well as long-term growth.
2. **This bill would require DGS to obtain approval from DOF before finalizing any agreement or lease for the relocation of the BOE.** Before executing any agreement or lease for a new Headquarters facility for the BOE, DGS must obtain approval from the DOF. DOF must also review and approve the terms and conditions of any agreement or lease before DGS begins the process of soliciting bids for a new facility. In addition, DGS would be required to notify the fiscal committees of the Legislature and the Joint Legislative Budget Committee of the terms and conditions of an agreement or lease at least 30 days prior to executing that agreement or lease of real property authorized by this bill.

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**COST ESTIMATE**

This bill would authorize DGS, with the consent of the BOE, to enter into a lease, lease-purchase agreement, or a lease with an option to purchase for a build-to-suit facility for the relocation of the BOE headquarters. The bill would provide that DGS shall be reimbursed for any reasonable costs or expenses associated with locating a new BOE headquarters site.

Moving and tenant improvement costs will not be incurred in the 2011/12 fiscal year. These costs are estimated to be approximately \$16 million which will be injected back into the local economy through these contracts. Until the lease is negotiated, actual costs cannot be determined. These costs will occur in approximately three to four years.

**REVENUE ESTIMATE**

This bill would allow the BOE to move its Headquarters operations and staff into a new facility that better meets its business needs and eliminates inefficiencies of managing work across, and supporting, multiple annex locations. Moving BOE Headquarters staff to a facility that meet its business needs, would improve and facilitate the BOE's core mission of administration of various tax and fee programs, and to that extent, would have a positive effect on future state and local revenues of an unknown amount.

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